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Investor Group Launches Plan to Boost Corporate Climate Engagement

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The Institutional Investors Group on Climate Change (IIGCC), a European membership body for investor collaboration on climate change, **announced the launch** of its **Net Zero Engagement Initiative (NZEI)**. A primary goal of the initiative is to "support investors align more of their investment portfolio with the goals of the Paris Agreement" while also increasing the number of companies subject to investor engagement on climate change. While **Climate Action 100+**, of which IIGCC is a coordinating member, "has transformed the scale and prominence of climate engagement with 166 high emitting focus companies, many more companies need to be engaged to align portfolios with net zero," said IIGCC.

As of the end of March 2023, **93 investors** have agreed to participate in NZEI, including Allianz, BNP Paribas, the Church of England Pensions Board, and Schroders. **107 companies** across a wide range of industries have **received letters** requesting confirmation that the companies have developed, or intend to develop, a net zero transition plan, which "provides a key tool for understanding the alignment of investment portfolios." The letters state that the "plans should set out both a company's emissions targets and a strategy for how it intends to deliver them. Recognising that most companies will not be able achieve net zero by themselves, they should also set out how they intend to support the transition more broadly."

The letters articulate the investment predicate for the NZEI as "recognising the financial risk presented by climate change and future regulatory risks posed by the failure of companies to prepare for economic transition." As a result, according to the letters, "many investors have committed to work towards aligning portfolios with net zero emissions through initiatives such as Paris Aligned Asset Owners and Net Zero Asset Managers Initiative. To date, more than 350 investors across these two initiatives, with over $60 trillion in assets under management, have committed to working towards achieving net zero emissions across their portfolios."

The letters recommend the adoption of four key plan components that align with the **Net Zero Investment Framework** corporate criteria:

1. a comprehensive net zero commitment by 2050 or sooner, "covering all relevant business areas and all material greenhouse gas (GHG) emissions scopes (1, 2 and 3);"
2. short-, medium- and long-term GHG targets "aligned with the relevant emission pathway and consistent with limiting the global temperature increase to 1.5 degrees Celsius;"
3. emissions performance disclosure specifying Scopes 1, 2 and 3; and
4. a credible decarbonization strategy which should include "the principal actions that you will take to deliver the GHG emissions targets including setting out capital expenditure plans and investment in climate solutions where relevant."

To support the requests for confirmation, on March 15 IIGCC **published a guide**, "Investor Expectations of Corporate Transition Plans: From A to Zero," which provides information on assessing transition plans, the rationale behind the requests and guidance on how companies can meet the requests.

Taking the Temperature: By expanding beyond the companies engaged by Climate Action 100+ the IIGCC is attempting to assist investors align a greater percentage of their portfolios with benchmarks consistent with the Paris Agreement's goals. The IIGCC is aligned with commitments made by other net zero-focused industry groups such as the Paris Aligned Asset Owners (PAAO) and Net Zero Asset Managers (NZAM). While investor-led corporate engagement on climate appears robust, these initiatives also have been subject to controversy and challenges. As we reported in December 2022, Vanguard, one of the "Big Three" asset managers (along with Blackrock and State Street), withdrew from membership in NZAM. This withdrawal followed criticism from the Minority Staff of the U.S. Senate Committee on Banking, Housing and Urban Affairs over the "liberal views" toward ESG of the "Big Three" asset managers. Relatedly, Munich Re, Zurich and Hannover Re, three major insurance providers, announced their exit from the Net-Zero Insurance Alliance in the span of one month between March and April 2023, at least one citing antitrust risk as a motivating factor.

As for Climate Action 100+, we recently discussed its announcement of Benchmark 2.0, an assessment tool to evaluate the efforts of 166 focus companies to achieve a net zero transition relative to three objectives: taking action to reduce emissions; implementing strong corporate governance and accountability around climate-related risk; and enhancing climate-related financial disclosures. The organization also was the target of scrutiny from Congress, as we reported on a letter written by Republican members on the House Committee on the Judiciary to the steering committee members of Climate Action 100+ claiming that the investor-led initiative created "seems to work like a cartel." House Republicans said they launched an investigation "probing whether major climate groups that spearhead the [ESG] movement are violating antitrust laws."

Net zero transition plans also have exposed companies to scrutiny. We recently reported on a study finding that only 5% of FTSE 100 companies have disclosed credible and sufficiently detailed transition plans to become net zero by 2050; our report and other

posts also commented on shareholder pressure for companies to adopt, disclose and meet net zero transition targets. At the same time, there is increasing shareholder and regulatory attention being paid to whether companies that have disclosed net zero plans are on target to meet those goals, exposing these companies to potential greenwashing challenges.